

## MEMORANDUM

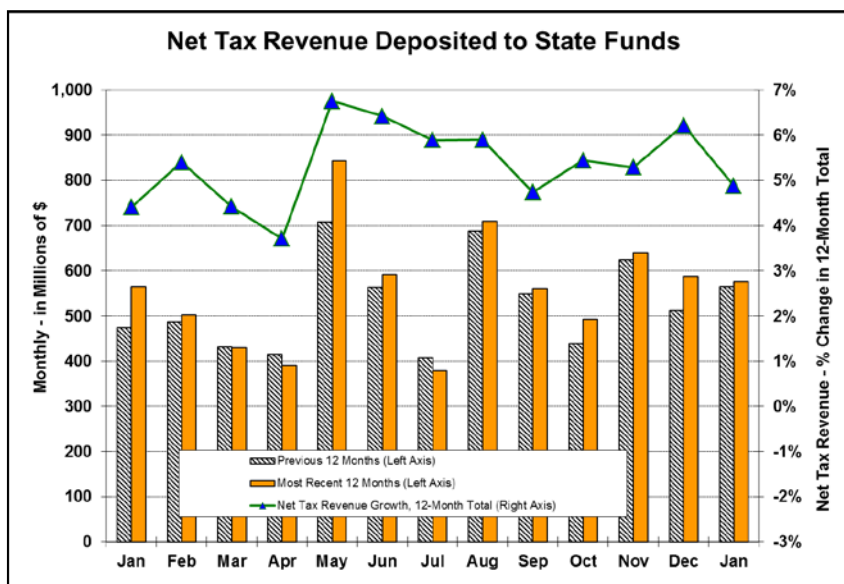
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: February 21, 2012

### Twelve-month Total Net Tax Receipts Through January 31, 2012

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending January 2012 with comparisons to the previous twelve months. January 2011 to January 2012 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

Net tax revenue across all State funds increased 1.9% in January and is up 4.9% over the most recent 12 months. The weak January came after a very strong December, indicating that much of January's poor showing was due to differences in the pace of tax deposits. At \$6.702 billion, annual revenue remains below the pre-recession peak level of \$6.760 billion (October 2008). The most recent six months have been marked by strong corporate tax receipts but low growth in withholding tax deposits.

## Month of January Comparison

January net tax receipts totaled \$575.7 million, an increase of \$11.0 million (1.9%) compared to January 2011. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$18.8 million, - 5.7%) – Withholding payments decreased 1.0% and estimate payment deposits decreased 3.5%. Both decreases were likely the result of differences in deposit timing between the fiscal years. In addition, tax refunds issued in January were well above last January. January 2011 was a very low income tax refund month, due to uncertainties surrounding federal tax forms that were not resolved until late in the month.
- Sales/Use Tax (positive \$23.5 million, 19.7%)
  - Road Use Tax Fund use tax (fee for new registration) increased \$1.8 million in January.
  - Gross General Fund sales/use tax receipts increased \$24.3 million while regular tax refunds increased \$0.5 million and school infrastructure transfers out increased \$2.1 million.
- Corporate Income Tax (positive \$9.2 million, 35.2%) – Deposits of corporate income tax receipts continued the recent trend, growing significantly in January. Corporate income tax refunds increased \$1.3 million.
- Fuel Tax (negative \$0.5 million, - 1.3%) – Gross tax deposits increased \$0.8 million while tax refunds increased \$1.3 million.
- Cigarette and Tobacco Taxes (negative \$5.9 million, - 30.3%) – Deposit timing issues have produced volatility in recent cigarette and tobacco tax monthly amounts. The \$106.0 million annual limit for deposits to the Health Care Trust Fund was reached in late December. Cigarette and tobacco tax deposits for the remainder of the fiscal year will be deposited to the General Fund.
- Gambling Tax (positive \$2.6 million, 11.9%) – The new casino in Lyon County (opened June 2011) will provide monthly year-over-year revenue increases throughout FY 2012.

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending January 2012, net revenue from all taxes deposited to State funds totaled \$6.702 billion, an increase of \$311.7 million (4.9%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$136.8 million, 4.9%) – Individual income tax continues to post good year-over-year annual growth numbers. However, at 3.4%, withholding tax growth is low by historic standards.
- Sales/Use Tax (positive \$70.0 million, 3.2%) – Sales/use tax revenue increased 3.2% over the past year and with the strong January; the 12-month total is now just below the January 2008 peak level.
- Corporate Income Tax (positive \$87.1 million, 37.5%) – Although up significantly over the most recent 12 months, corporate tax revenue, net of refunds issued, is 11.1% below the prerecession peak (September 2008 = \$359.2 million).
- Fuel Tax (negative \$3.6 million, - 0.8%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold

increased 1.0% while taxable diesel sales increased 1.4%. Both growth percentages have been trending down in recent months. Although up year-over-year, taxable diesel sales over the most recent 12-month period are 3.8% lower than the March 2008 peak diesel sales level and total taxable fuel gallons (gasoline/ethanol/diesel) are only 1.0% above the prerecession (August 2007) peak for all gallons sold.

- Gambling Tax (positive \$12.3 million, 4.4%) – According to Racing and Gaming Commission statistics, five of Iowa's 18 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending January 2012. The combined AGR growth for the 18 facilities was positive 4.8% over the same 12 months last year, with the Lyon County casino contributing 57.7% of the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.432 billion.
- Insurance Premium Tax (negative \$3.7 million, - 3.8%)
- Cigarette and Tobacco Tax (negative \$6.5 million, - 2.8%)

### **Tax Spotlight – Inheritance Tax**

The category of inheritance tax includes an inheritance tax, the qualified use inheritance tax, and the generation skipping transfer tax.

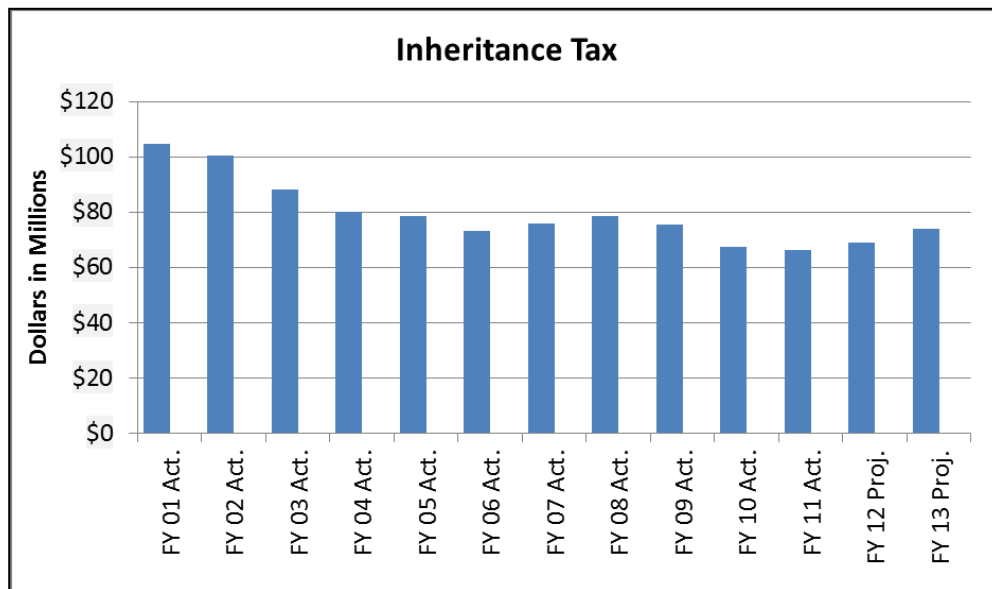
The inheritance tax is imposed under the authority of Iowa Code Chapter 450. Tax rates range from 5.0% to 15.0% depending on the amount of inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax the estate must exceed \$25,000 in value. Spouses were exempted fully from inheritance tax with the passage of SF 356 (Department of Revenue and Finance Tax Administration Act of 1991). Senate File 35 (Inheritance Tax Act of 1997) expanded the exemption to include all lineal ascendants and decedents.

The Iowa generation skipping transfer tax (Iowa Code Chapter 450A) is equal to the federal tax credit allowable for the State taxes paid. Currently the federal generation skipping transfer tax credit does not apply to estates so the State will not receive any revenue from the tax until the federal situation changes.

The qualified use inheritance tax is imposed under the authority of Iowa Code Chapter 450B. A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if they maintain the business for up to 10 years. However, if the farm or business is sold to a non-relative prior to the 10 years, the heir may be required to pay inheritance tax.

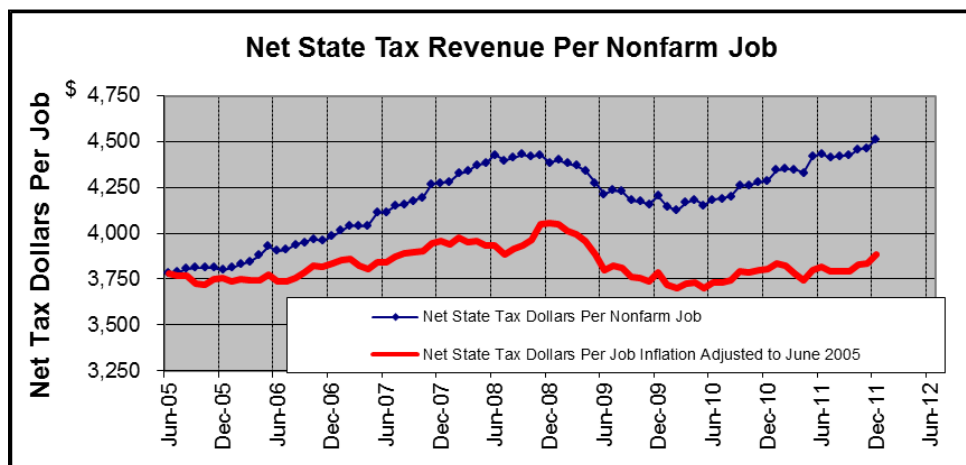
The Iowa estate tax (Iowa Code Chapter 451) is equal to the federal tax credit allowable for State estate taxes paid. However, the federal law does not currently allow for a federal estate tax credit so Iowa Code Chapter 451 is inoperative and Iowa does not collect estate tax.

In most instances, inheritance tax returns must be filed and tax paid by the last day of the ninth month following the death of the decedent. Tax revenue from the inheritance tax is deposited in the State General Fund.



## Tax Revenue and Employment

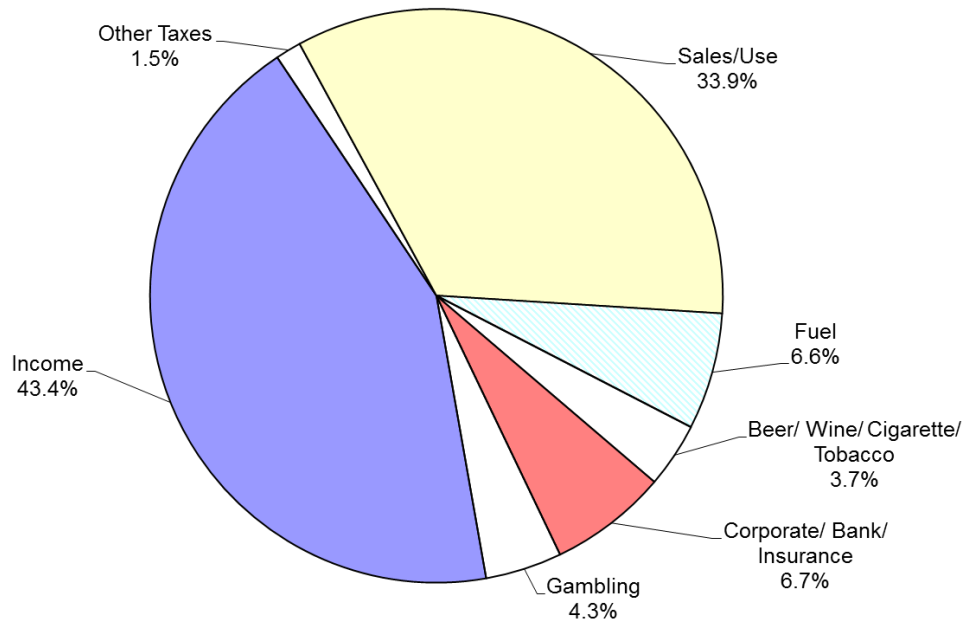
The average reading for Iowa nonfarm employment over the 12 months ending December 2011 is 1,482,800 and net State tax receipts over the same 12 months totaled \$6.691 billion, or \$4,512 per nonfarm job. This is \$727 (19.2%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 16.0%. Therefore, State tax revenue per job has exceeded the rate of inflation by approximately 0.5% per year since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job (blue line) and inflation-adjusted tax collections per job (red line).



## Net State Tax Revenue - Twelve Months Ending January 2012

**Net Revenue = \$6.702 Billion**

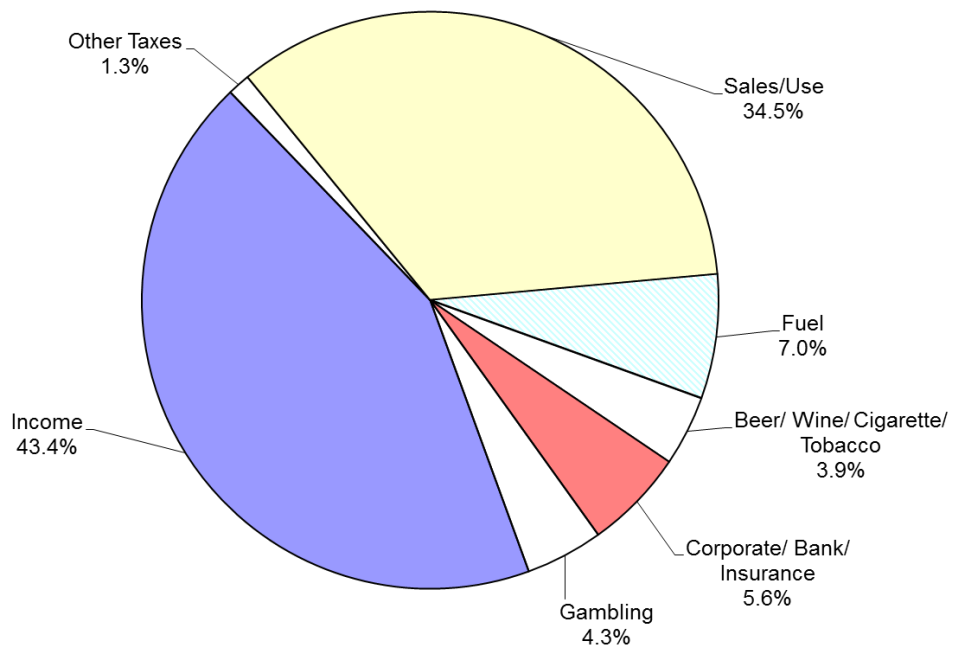
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending January 2011

**Net Revenue = \$6.390 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of January 2011</b>	<b>Month of January 2012</b>	<b>January \$ Change</b>	<b>January % Change</b>
Banking	\$ 30.2	\$ 32.6	\$ 2.4	7.9%	\$ 5.5	\$ 2.8	\$ - 2.7	-49.1%
Beer & Wine	21.3	21.5	0.2	0.9%	2.0	2.0	0.0	0.0%
Cigarette & Tobacco	230.4	223.9	- 6.5	-2.8%	19.5	13.6	- 5.9	-30.3%
Corporate Income	232.3	319.4	87.1	37.5%	26.1	35.3	9.2	35.2%
Fuel	444.8	441.2	- 3.6	-0.8%	37.5	37.0	- 0.5	-1.3%
Gambling	277.6	289.9	12.3	4.4%	21.9	24.5	2.6	11.9%
Individual Income	2,771.3	2,908.1	136.8	4.9%	327.3	308.5	- 18.8	-5.7%
Inheritance	62.1	72.7	10.6	17.1%	3.8	7.8	4.0	105.3%
Insurance	98.0	94.3	- 3.7	-3.8%	0.3	0.1	- 0.2	-66.7%
Other Taxes	4.9	10.4	5.5	112.2%	- 0.3	- 0.2	0.1	--
Real Estate Transfer	13.7	14.3	0.6	4.4%	1.8	1.5	- 0.3	-16.7%
Sales/Use	2,203.3	2,273.3	70.0	3.2%	119.3	142.8	23.5	19.7%
<b>Total Net Taxes</b>	<b>\$ 6,389.9</b>	<b>\$ 6,701.6</b>	<b>\$ 311.7</b>	<b>4.9%</b>	<b>\$ 564.7</b>	<b>\$ 575.7</b>	<b>\$ 11.0</b>	<b>1.9%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,598.3	\$ 8,007.1	\$ 408.8	5.4%	\$ 617.5	\$ 647.9	\$ 30.4	4.9%
Tax Refunds	\$ - 1,208.4	\$ - 1,305.4	\$ - 97.0	8.0%	\$ - 52.8	\$ - 72.2	\$ - 19.4	36.7%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,441.2	\$ 5,616.7	\$ 175.5	3.2%	\$ 502.3	\$ 509.7	\$ 7.4	1.5%
Road Use Tax Fund	\$ 716.1	\$ 736.7	\$ 20.6	2.9%	\$ 60.0	\$ 61.0	\$ 1.0	1.7%
Non-GF Gambling	\$ 214.1	\$ 216.9	\$ 2.8	1.3%	\$ 0.8	\$ 4.3	\$ 3.5	437.5%
Other State Funds	\$ 18.6	\$ 131.4	\$ 112.8	606.5%	\$ 1.6	\$ 0.6	\$ - 1.0	-62.5%
<b>Local Option Taxes *</b>	<b>\$ 783.9</b>	<b>\$ 843.3</b>	<b>\$ 59.4</b>	<b>7.6%</b>	<b>\$ 55.5</b>	<b>\$ 60.0</b>	<b>\$ 4.5</b>	<b>8.1%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.